

**The Tax Fraud Hotline Has Not Been an  
Effective Source for Criminal Tax  
Investigations**

**September 2003**

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WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

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MEMORANDUM FOR CHIEF, CRIMINAL INVESTIGATION

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FROM: Gordon C. Milbourn III  
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SUBJECT: Final Audit Report - The Tax Fraud Hotline Has Not Been an  
Effective Source for Criminal Tax Investigations  
(Audit # 200210042)

This report presents the results of our review of the Criminal Investigation (CI) function's use of information submitted by informants via the Internal Revenue Service's (IRS) Tax Fraud Hotline (referred to as the "hotline"). The overall objective of this review was to determine whether the CI function effectively considers hotline information as a source for identifying tax investigations.

The toll-free telephone hotline number is a prominent part of the CI function's outreach to the public; press releases and publications often contain a reference to the telephone number and encourage its use. While only a portion of the information reported via the hotline warrants consideration by the CI function, we estimate that each year the call sites forward to the CI function several thousand hotline allegations that meet the referral criteria.

In summary, the CI function did not treat the hotline as a viable source for tax investigations because often the information captured was limited in detail and the informants were anonymous. Therefore, the Lead Development Centers (LDC)<sup>1</sup> gave only limited scrutiny to hotline leads and rarely assigned hotline allegations to CI field agents for investigation. In our opinion, hotline leads can reveal allegations of significant tax violations and thus should be given consideration comparable to other lead sources.

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<sup>1</sup> The primary function of an LDC is to identify and develop quality investigations to meet the CI function's business plan. The LDCs assist CI field offices by conducting research and analysis on alleged noncompliance.

In addition, the CI function did not provide specific guidance to ensure that allegations of refund fraud or questionable return preparer activity reported to the hotline were used by the Fraud Detection Centers (FDC)<sup>2</sup> to prevent the issuance of potentially fraudulent refunds. In our opinion, hotline leads can reveal relevant refund fraud allegations that could contribute to the FDCs' fraud detection efforts.

We recommended that the CI function's Director, Strategy, revise procedures to specify that LDC managers prioritize research of informant allegations based on their relative potential, without giving routine preference to field office requests, and proactively assess the adequacy of the preparation of forms that refer hotline information to the LDCs. To improve the investigative potential of hotline allegations, we recommended guidance for documenting allegations that meet CI referral criteria be revised to emphasize that IRS personnel should encourage informants to identify themselves and allow for subsequent contact by CI function personnel when necessary. As a supplement to the toll-free hotline, limited use of Internet electronic mail (e-mail) or web page fill-in forms could be considered to directly collect informant communications. To evaluate the benefits of the hotline, the number and results of investigations should be tracked. Regarding refund fraud allegations, we recommended that the Director, Refund Crimes, develop procedures that establish specific criteria for and guide the referral of appropriate hotline information to the FDCs. We also recommended that procedures be revised to specify that FDC managers proactively assess the adequacy of the preparation of forms that refer hotline information to the FDCs.

Management's Response: CI function management agreed with some of our recommendations. In general, CI function management believes that the hotline call sites provide only a limited number of informant communications that meet criminal criteria and establish the basis for initiating a criminal investigation. CI function management agreed that they have a shared responsibility to provide instruction and guidance on potential informant communications that meet criminal criteria and they will support the Wage and Investment Division, which is the business owner of the hotline call site function, by providing expertise in interview techniques and training of call site personnel. CI function management also agreed to update the instructions and guidance for FDC interaction with the hotline call sites and the proper handling of informant communications that potentially meet criminal criteria for refund fraud or questionable return preparer activity.

However, CI function management did not agree that corrective action was required regarding the LDC procedures for prioritizing research assignments, that the Internet e-mail or a web site would be useful in collecting informant data, or that there would be a benefit to tracking the number and results of investigations initiated from the hotline and other public outreach methods. In addition, CI function management did not agree

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<sup>2</sup> The FDCs operate closely with Submission Processing Sites where individual tax returns are filed. The FDCs use manual and computerized techniques to detect potentially fraudulent refund returns, prevent the issuance of those refunds, and refer cases to the CI field offices for investigation.

with the calculated potential savings presented in Appendix IV. Management's complete response to the draft report is included as Appendix V.

Office of Audit Comment: Since we believe that hotline leads can reveal allegations of significant tax violations, we do not agree with the CI function management response that corrective actions are not warranted for some recommendations. Unless procedures are revised to encourage a more balanced consideration of informant allegations received via the telephone hotline, we believe that field office informant leads will continue to receive routine preference. In our opinion, the limited use of automated methods for collecting information would be a forward-looking approach to improving the effectiveness of public informants as a source for tax investigations. The absence of specific management information system codes for the various public informant sources hinders an objective assessment of the investigative value of hotline allegations. Where appropriate, we have included in the report our comments related to management's response. While we still believe our recommendations are worthwhile, we do not intend to elevate our disagreement concerning these matters to the Department of the Treasury for resolution.

While CI function management agreed with the related recommendation, they did not agree with the calculated potential savings presented in Appendix IV of our draft audit report. CI function management responded that the CI Refund Crimes Section conducted an analysis of the 28 accounts where we identified that the absence of account controls allowed refunds totaling \$93,480 to be issued after the date allegations were reported to the hotline. The CI function analysis proved that 2 of the 28 alleged fraudulent refunds totaling \$6,030 were false. Since the results of the CI function's analysis of all accounts, which was conducted during the draft report response period, proved that only two refunds were false, we adjusted the potential savings presented in Appendix IV to reflect the potential benefit relating to only those two accounts.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

**The Tax Fraud Hotline Has Not Been an Effective Source  
for Criminal Tax Investigations**

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## The Tax Fraud Hotline Has Not Been an Effective Source for Criminal Tax Investigations

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### Background

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The Internal Revenue Service's (IRS) Criminal Investigation (CI) function conducts investigations of potential criminal tax violations within three interdependent categories: legal source tax crimes, illegal source financial crimes, and narcotics-related financial crimes.<sup>1</sup> These investigations all should have a positive effect on tax compliance.

One of the CI function's strategies since the issuance of the *Webster Report* in 1999<sup>2</sup> has been to increase the number of legal source tax cases that it investigates and recommends for prosecution. The report emphasized that the CI function needed to refocus its resources towards potential criminal violations affecting the public's confidence in the tax system and compliance with the tax laws.

Because noncompliance with tax laws cannot easily be identified solely from tax returns and documents filed with the IRS, the CI function must often obtain information from outside sources to generate leads that may result in the initiation of a tax-related investigation. Accordingly, the CI management information system shows that the CI function often receives information from outside sources that indicates a person is violating the tax laws. While about 39 percent of 3,565 legal source Primary Investigations approved during Fiscal Year (FY) 2002 originated from referrals developed within the IRS, about 30 percent originated from information supplied by general public sources, such as informants.<sup>3</sup>

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<sup>1</sup> Legal source tax investigations involve persons in legal occupations who evade taxes by violating tax laws. Illegal source and narcotics-related investigations involve persons in the untaxed underground economy who attempt to disguise income from illegal activities.

<sup>2</sup> *Review of the Internal Revenue Service's Criminal Investigation Division* (Publication 3388 (4-1999)). Judge William Webster led this independent review, commonly referred to as the *Webster Report*, to assess the CI function's effectiveness in accomplishing its mission.

<sup>3</sup> A Primary Investigation is the initial stage of a tax investigation, for which only certain investigative techniques are authorized. Cases can originate inside the IRS from tax return examinations, delinquent account actions, fraud detection programs, or other functional activities. In addition to internal and general public sources, the balance originates from other external sources, such as other Government agencies.

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CI function field employees commonly gather information from informants during the course of their investigative duties. Typically, if a CI group supervisor elects to evaluate the information in the field, a Primary Investigation will be initiated. The IRS also has a specific toll-free telephone number that provides individuals with a way to report information regarding alleged tax violations and unreported income.<sup>4</sup> The toll-free tax fraud telephone number (referred to as the “hotline”) is a prominent part of the CI function’s outreach to the public; press releases and publications often contain a reference to the telephone number and encourage its use.

During FY 2002, IRS assistors answered over 42 million calls across all toll-free numbers combined. Approximately 282,000 of these calls were answered by the Atlanta, Georgia; Austin, Texas; Fresno, California; and Philadelphia, Pennsylvania, call sites on the hotline number.<sup>5</sup>

Call site Customer Service Representatives (CSR) record the information supplied by informants on an Information Report Referral (Form 3949). CSRs should attempt to obtain all the information to complete the Form 3949, but it is particularly important to include the alleged tax violator’s name and address, the Social Security Number if known, the tax years, and the specific nature of the violation. The dollar amounts of unreported income or erroneous deductions are also important. If the caller lacks specific information to describe the alleged violation or cannot identify the violator, a Form 3949 cannot be completed.

Call site personnel screen the Forms 3949 to determine if they should be forwarded to the CI function as a lead for a criminal case or to one of the other IRS functions for Examination, Collection, or other civil consideration. The IRS does not maintain statistics to show how many Forms 3949 were completed, in what proportions they were

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<sup>4</sup> The Wage and Investment Division, as part of its Customer Account Services telephone program, manages the toll-free number.

<sup>5</sup> For FY 2003, the 800-829-0433 hotline number was answered only at the Atlanta, Austin, and Fresno call sites.

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distributed to the various IRS functions, or how the CI function's Lead Development Centers (LDC)<sup>6</sup> disposed of the ones they received. However, call site studies conducted in Calendar Year 2000 indicated most were forwarded for Examination, not CI, consideration.

We conducted this audit between November 2002 and July 2003 and contacted CI function personnel at the National Headquarters in Washington, D.C., at the 12 nationwide CI function LDCs, and at the Atlanta, Austin, and Fresno CI Fraud Detection Centers (FDC).<sup>7</sup> We contacted personnel at the 3 Wage and Investment (W&I) Division hotline call sites and obtained copies of Forms 3949 prepared during 1 week's time from each site. We also made an on-site visit to the Austin LDC and call site. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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### **The Criminal Investigation Function Has Not Treated the Tax Fraud Hotline As a Viable Source for Tax Investigations**

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CI function personnel advised us that the hotline process was not effective because often the information captured was limited in detail and the informants were anonymous, which does not allow CI function personnel an opportunity to gather additional details from the informant. CI function personnel also advised us that the call sites sometimes refer information that does not meet CI criteria. Therefore, the LDCs rarely assigned hotline allegations to CI function field agents for investigation. However, our review indicates that hotline leads can reveal significant fraud allegations and thus should be given consideration comparable to leads from other sources.

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<sup>6</sup> The primary function of an LDC is to identify and develop quality investigations to meet the CI function's business plan. The LDCs assist CI function field offices by conducting research and analysis on alleged noncompliance.

<sup>7</sup> The FDCs operate closely with Submission Processing Sites where individual tax returns are filed. The FDCs use manual and computerized techniques to detect potentially fraudulent refund returns, prevent the issuance of those refunds, and refer cases to the CI function's field offices for investigation.



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### **Hotline leads often received only limited scrutiny even though significant allegations were made**

Internal Revenue Manual (IRM) screening criteria are designed so that only significant allegations, involving greater than \$50,000 per year in unreported income, are forwarded to the LDCs for consideration.<sup>8</sup> An LDC manager can select for development and analysis those leads that are consistent with the CI function's plans and strategies and appear to have some criminal potential. The LDC can subsequently decide that a lead warrants assignment to a field agent for investigation or that it should be forwarded to a civil function for consideration.

In describing the general process conducted when screening Forms 3949, several LDC personnel outlined a set of characteristics they would consider when deciding if a lead would be developed, such as the location of the subject, the number of tax years involved, the amount of tax effect, and the reasonableness of and the ability to prove or disprove the allegation.

At our request, LDC managers annotated their disposition of 121 Forms 3949 we identified in our 1-week sample that met the CI referral criteria. The LDCs assigned case numbers to 8 allegations selected for research and indicated that another 10 might be researched in the future. The LDCs indicated they forwarded the remaining Forms 3949 to the Compliance functions; 78 without conducting any research and 25 after doing limited research.<sup>9</sup>

We recognize such an assessment draws on the professional experience of CI function personnel and is facilitated if an informant provides detailed and relevant information. However, five LDCs noted that workload priorities affected their ability to select many, if any, Forms 3949 for research or noted that they declined to research the Forms 3949 with

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<sup>8</sup> The hotline call sites distribute the Forms 3949 that meet the CI referral criteria to 1 of 12 LDCs.

<sup>9</sup> In some instances, the LDCs noted that they had researched IRS tax account information, criminal records information, or a personal information data source.

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simple statements that the allegations were not specific enough or were anonymous.

The following examples, each of which was from an anonymous informant, illustrate the context of some of the forms that the LDCs forwarded to the Examination function without conducting research or after conducting limited research. While the substance of allegations forwarded to the CI function varied, we believe these are examples of allegations that merited further research:

- A company president allegedly had underreported income by \$400,000 by paying personal expenses from company funds. Comments from the informant noted on the Form 3949 indicated the location of accounting information within the company office. The informant indicated he or she learned of the violation through his or her work. The LDC noted that, although superficially the allegation had merit, it did not contain specifics that would justify conducting research. Our research of IRS account information showed that the corporation's latest tax return reported over \$9 million in gross receipts.
- A real estate broker allegedly had not reported commission income of \$500,000 per year since 1997. Comments from the informant noted on the Form 3949 indicated that commissions were split into multiple small payments. The LDC noted that the information was vague. Our research of IRS account information showed that the individual had not filed a tax return in 4 of the past 5 years and had reported about \$30,000 in self-employed income in the year for which a return has been filed.
- A personal services business owner allegedly collected \$70,000 per month but reported only \$20,000 per month, allegedly sending cash for investment overseas. Three business locations were noted on the Form 3949. The LDC noted that it could not handle such information due to other programs. Our research of IRS account information showed that the individual's latest tax return reported about \$122,000 in gross business receipts.

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- An owner or partner of 2 manufacturing businesses allegedly had underreported income by \$3 million over 7 years by expensing the same equipment on both businesses' tax returns. Comments from the informant noted on the Form 3949 indicated that the bookkeeper quit after refusing to participate in forging the records and that alleged bankruptcy fraud had also occurred. The LDC noted that the allegation appeared false. Our research of IRS account information showed that each business entity had in excess of \$1 million in assets noted on its most recent tax returns.

In our opinion, the CI function may have disregarded allegations which, after additional research, suggested that criminal tax activity may have occurred. The CI function would have to apply additional investigative techniques, starting with detailed LDC research, to fully evaluate the merits of these allegations.

### **CI function field investigations rarely began from hotline leads, even though other leads investigated were not always persuasive**

During FY 2002, the CI function approved and assigned to CI function field agents 690 Primary Investigations that had a General Public source code.<sup>10</sup> Based on a review of a statistical sample of 90 of the 690 leads, we estimate that no more than 47 were based on information received via the hotline. In contrast, we estimate the CI function received several thousand Forms 3949 during the year from hotline calls that met CI referral criteria.<sup>11</sup>

The leads that originate from information received by CI function field agents are not necessarily any more persuasive than some leads that originate from hotline calls. We reviewed the source documents for the sample leads

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<sup>10</sup> This source code includes cases initiated from informant allegations received by the hotline, CI function field agents, and other miscellaneous sources.

<sup>11</sup> In our 1-week call site sample, 140 (1.12 percent) of 12,490 calls met CI referral criteria. Applying this percentage to all 282,000 hotline calls received in FY 2002, the CI function could expect about 3,000 referrals. Since activity on the hotline fluctuates during the year, a more precise estimate is not possible without additional data.

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assigned to CI function field agents where the lead emanated from the general public. We determined that three leads originated from a hotline call. For the remaining 87 leads that emanated from the field, we determined the following:

- For 31 leads where information about the informant's identity was shown, 6 listed the informant as being anonymous, even though some CI function managers consider anonymous informants as a barrier to selecting hotline leads for assignment to CI function field agents.
- For 30 leads where the estimated unreported income amount was shown, 4 involved amounts that were less than the \$50,000 per year minimum that applies to hotline leads during screening.
- Some allegations were described in non-specific terms, such as unreported income from selling stolen lumber, unreported income from musical performances, or employment tax noncompliance involving 25 employees.

We realize that the lack of an informant identity, the amount of unreported income, or the description of an allegation on a source document may not reflect all that a CI function field office knew regarding the potential for a criminal case. However, because the leads from other sources may not always be more persuasive than leads from the hotline, we believe the CI function needs to give comparable consideration to hotline leads rather than giving preferential treatment to leads from other sources.

Also, even though the CI function has concerns regarding the effectiveness of the hotline process, it nonetheless widely communicates to the public that the toll-free hotline number is a way to report suspected tax fraud and is thus an important component of tax compliance. Therefore, the CI function needs to enhance the viability of the hotline by taking appropriate actions on hotline calls.

The CI function is not required to, and generally has not, offered electronic mail (e-mail) or Internet-based web pages as alternative methods for the general public to report suspected fraud. The CI function's Office of Refund

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Crimes does offer an e-mail address to tax practitioners as an option for reporting refund fraud. Other IRS functions have used e-mail to key in on high-interest topics. For example, the public can submit information relating to potentially improper tax shelter activity to the Office of Tax Shelter Analysis using a specific IRS-provided e-mail address.

In conclusion, allegations reported on the hotline, which the IRS promotes as the primary way for the public to communicate this type of information, are often dismissed without any data research that might tend to support or disprove the allegation. In our opinion, the CI function has not effectively balanced the consideration of information provided by informants via the hotline with similar information received directly by CI function field personnel.

### **Recommendations**

The CI function's Director, Strategy, should:

1. Revise LDC procedures to specify that LDC managers prioritize research assignments of all informant allegations based on their relative potential, without giving routine preference to research requests solely because CI function field offices make them.

Management's Response: CI function management responded that no specific corrective actions are required at this time because LDC managers already perform this function as they review informant communications that come from various sources. CI function management also indicated that this recommendation may be affected by the pending redesign for the LDCs.

Office of Audit Comment: We made this recommendation to encourage a more balanced consideration of informant allegations received via the telephone hotline. In our opinion, the CI function's propensity to select field office informant leads for investigation in essence resulted in the LDCs prioritizing hotline leads only to the extent necessary to supplement field office inventories and usually not in a manner that utilized research to clarify on a broader scope whether hotline allegations might have had significant

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investigative potential. Unless procedures are revised to encourage similar consideration, we believe that field office research requests will continue to receive routine preference. CI function management did not specify how the pending redesign for the LDCs might affect this recommendation.

2. Coordinate as necessary with the applicable operating division functions to revise the IRM guidance for documenting the receipt of informant allegations to emphasize that, when the CI referral criteria are met, IRS personnel should be persistent when encouraging the informant to give his or her name and telephone number, to allow a subsequent contact in case CI function personnel want to obtain additional information. The CI function should revise the guidance to clearly illustrate the appropriate manner in which CSRs should invite an informant's continued participation.

Management's Response: CI function management agreed that they have a shared responsibility to provide instruction and guidance on potential informant communications that meet criminal criteria. The W&I Division, as the business owner of the hotline call site function, will assume the lead role in reviewing and revising hotline call site procedures and IRM guidance. The CI function will support the W&I Division by providing expertise in interview techniques and training to call site personnel regarding contacts with informants.

3. Revise LDC procedures to specify that LDC managers co-located with the call sites should be proactive in assessing the adequacy of the preparation of Forms 3949 by call site personnel and in providing specific feedback when necessary to improve trends in completing the Forms.

Management's Response: The W&I Division, as the business owner of the hotline call site function, will assume the lead role in assuring the adequate preparation of informant communication forms. The CI function will support the W&I Division by providing training to call site personnel on techniques for soliciting high quality and

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relevant information from informants. CI function management also indicated that this recommendation may be affected by the pending redesign for the LDCs.

4. Consider whether the limited use of Internet e-mail or web page fill-in forms would be an effective supplement to the toll-free hotline in directly collecting informant communications for specific high-interest topics. For example, an e-mail address could be promoted as a way to report alleged promoters of the Reparations Credit<sup>12</sup> scheme. This would also serve to consolidate such information for the CI function's consideration.

Management's Response: CI function management did not agree that the use of e-mail or an Internet web site would be useful in collecting informant data. CI function management believes that the toll-free hotline call sites are at present the best way to ensure a dialogue between the informant and IRS personnel that provides an opportunity to obtain clarifying information as well as obtain the identity of the informant for follow-up purposes. CI function management believes that concerns that were discussed in a prior call site study regarding the security of taxpayer information in the possible use of an e-mail address for informant communications are still applicable. CI function management also cites the call site study's conclusion that electronic collection systems would require additional resources to review and analyze the informant communications received.

Office of Audit Comment: This recommendation does not suggest the replacement of the hotline call site process with an electronic system. We believe that e-mail or Internet access should be considered as a supplement for topics of high interest where the CI function desires information from the public. In that context, we would anticipate that offering an additional method of communication would only require similar CI function resources as would be necessary to

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<sup>12</sup> Since the early 1990s, thousands of taxpayers have filed specious tax claims with the IRS for reparations credits payable to descendants of slaves. The slavery reparations scheme appeared as 1 of the 12 common tax schemes in a February 2003 IRS News Release.

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review such information if it was recorded by the call sites on Forms 3949 and routed to the CI function. Since the Office of Refund Crimes already offers an e-mail address to tax practitioners as an option for reporting refund fraud, we believe that security issues can be adequately addressed. In our opinion, the limited use of automated methods for collecting information would be a forward-looking approach to improving the effectiveness of public informants as a source for tax investigations.

5. Evaluate the benefits of the hotline and other public outreach methods by tracking the number and results of investigations by establishing more definitive source codes within the CI function's management information system for the various General Public sources of information.

Management's Response: CI function management does not perceive any tangible benefits from this recommendation.

Office of Audit Comment: Having only a single management information system code for the various General Public sources of information does not allow the CI function to evaluate the comparative volumes or results of the investigations that originate from allegations reported to the hotline, gathered by field agents, submitted in written correspondence, or received from any other particular public informant source. In our opinion, this hinders an objective assessment of the investigative value of hotline allegations, or any of the other public sources, derived from data maintained in the management information system.

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### **The Criminal Investigation Function Did Not Ensure That Questionable Refund Information Reported to the Tax Fraud Hotline Was Used**

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The CI function had not provided specific guidance to the call sites regarding the screening of Forms 3949 for refund fraud or questionable return preparer allegations. Our review showed that hotline leads can reveal relevant refund fraud allegations that, absent specific guidance, would likely be forwarded to the Examination function rather than be brought to the immediate attention of a CI FDC.



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### **Hotline screening has not addressed refund fraud issues, even though that is a prominent CI program**

The CI function provided informal guidance on a local basis to the call sites regarding refund fraud issues, but that did not result in those allegations being promptly or regularly forwarded to the FDCs. The FDC Questionable Refund Program (QRP) and Return Preparer Program (RPP)<sup>13</sup> focus on refund returns with a broader goal of identifying more extensive refund fraud schemes.

Refund fraud allegations tended to be overlooked for CI function purposes in the Form 3949 screening process because the IRM criteria for forwarding forms to the CI function focus on a high-dollar tax effect (i.e., more than \$50,000 per year in unreported income). That would usually exclude information that questions individual tax return refunds, which are typically only a few thousand dollars each. The FDC managers advised us that some QRP and RPP leads are received from the LDCs, but they are not normally received from call sites or the Examination function in large numbers or on a regular basis.

Due to the relevance of this condition during the Tax Year 2002 Filing Season,<sup>14</sup> we notified the CI function's Director, Refund Crimes, of this observation on February 28, 2003, via e-mail.<sup>15</sup> As a result, some FDC managers discussed with their call site counterparts what actions were needed to guide the referral of refund fraud information to the FDCs. Some FDC managers expressed concerns, however, that a change in procedures could cause an unmanageable volume of Forms 3949 to be forwarded to the FDCs.

Some FDC managers also suggested that the Form 3949 could be revised to distinguish between general criminal activity and refund fraud activity for referral purposes, and

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<sup>13</sup> The RPP pursues unscrupulous return preparers who claim excessive deductions and exemptions on returns prepared for clients. The clients may or may not have knowledge of the false claims.

<sup>14</sup> The filing season is the period from January through mid-April when most individual income tax returns are filed.

<sup>15</sup> The Director, Refund Crimes, has line authority over the FDCs.

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that refund fraud referrals should be forwarded directly to the FDCs without passing through an LDC. We believe these initial, varied responses indicate that the CI function needs a more cohesive approach to address this issue. This approach, through national guidance, would make more effective use of potential refund fraud information received by the hotline.

### **Hotline leads can reveal potential refund fraud that has not yet been identified through other efforts**

The CI function's QRP and RPP are designed to detect potentially fraudulent refund returns and prevent the issuance of those refunds; therefore, it is imperative that relevant hotline allegations are promptly routed to the CI function.

Of the 1,312 Forms 3949 that the call sites prepared during our 1-week sample, 94 contained information that alleged some type of refund or return preparer fraud:

- Preparer scheme – 26.
- False tax withholding forms – 25.
- Identity theft – 21.
- Misuses of Social Security Number – 21.
- Reparations Credit scheme claim – 1.

The call sites designated only 18 of these 94 Forms 3949 for forwarding to the LDCs and marked the other 76 for forwarding to the Examination or other functions.<sup>16</sup>

We determined that the questionable refund situation had already been identified for some of the alleged violators, but that other individuals had not been identified:

- The CI function had already established account controls on 10 of the taxpayers prior to receipt of the hotline call, which prevented \$32,071 from being potentially

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<sup>16</sup> We forwarded copies of 90 of the 94 QRP- or RPP-related Forms 3949 to the applicable FDCs for any action they deemed necessary.

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refunded in error.<sup>17</sup> This suggests that these hotline calls had some merit, since the CI function had already identified a questionable refund situation on these taxpayers.

- In contrast, the absence of account controls on 28 of the taxpayers allowed potentially fraudulent refunds totaling \$93,480 to be issued after the date that the allegation was reported to the hotline.
- During the 2003 processing year, 12 tax return preparers that were named in hotline allegations prepared a total of 8,770 tax returns filed as of May 19, 2003. Each preparer had at least an 89 percent refund return rate, and 9 preparers exceeded a 97 percent refund rate.<sup>18</sup>

The QRP and RPP detect large numbers of questionable refunds and schemes.<sup>19</sup> However, in our opinion, the CI function could have neither proved nor disproved allegations of refund fraud on some of the Forms 3949 in our sample, without applying investigative techniques consistent with steps taken on other QRP or RPP situations. The following examples, which were forwarded to the Examination rather than CI function, illustrate the context of some of the allegations reported by either an informant or a tax preparer:

- A taxpayer allegedly attempted to file a tax return with a suspicious Wage and Tax Statement (Form W-2) and dependents with nonidentical names, which were specifically identified in the allegation. Our research of IRS account information showed that a tax return, which claimed 1 of the 2 dependents noted on the Form 3949, resulted in a refund of an Earned Income Tax Credit

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<sup>17</sup> The CI function established account controls on 10 additional taxpayers after receipt of the hotline call, preventing another \$42,531 from being potentially refunded in error.

<sup>18</sup> According to the IRS, as of April 25, 2003, the average refund amount for its recently completed tax season was \$1,973.

<sup>19</sup> During 2001, the FDCs detected over 38,000 questionable returns and successfully prevented the issuance of over \$302 million in potentially false refunds.

## **The Tax Fraud Hotline Has Not Been an Effective Source for Criminal Tax Investigations**

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(EITC),<sup>20</sup> in excess of \$3,500, issued 21 days after the hotline call was received.

- A tax preparer allegedly instructed a taxpayer to obtain a child's Social Security Number to increase his or her refund amount. Our research of IRS account information showed that a tax return claiming a dependent resulted in a refund of an EITC, in excess of \$1,900, issued 35 days after the hotline call was received. During the 2003 processing year, the return preparer involved had prepared more than 1,300 tax returns filed as of May 19, 2003.
- A disabled taxpayer suspected he or she was a victim of identity theft regarding the filing of tax returns under his or her Social Security Number. Our research of IRS account information showed that a tax return was filed using the taxpayer's Social Security Number, reporting business income and claiming 2 dependents, and resulted in a refund of an EITC in excess of \$2,500, issued 19 days after the hotline call was received. In the prior year, a nearly identical amount of business income was reported under this same Social Security Number, but two different dependents were claimed.

In conclusion, because the CI function did not provide specific guidance, the call sites forwarded most Forms 3949 of this type for Examination consideration, which would not contribute to the FDCs' efforts to promptly identify questionable returns and prevent the issuance of potentially fraudulent refunds. In our opinion, it is imperative that criteria and guidance be established on a national level to ensure that the referral of Forms 3949 from the hotline call sites to the FDCs becomes an established routine designed to capture all Forms relevant for the FDCs.

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<sup>20</sup> The EITC is computed based on the amount of a taxpayer's earned income and whether the taxpayer has qualified children. The EITC can reduce the amount of tax owed on a tax return or can be refunded to the taxpayer. Historically, the IRS has experienced challenges in administering the EITC Program due to both the complexity of the eligibility rules and the filing of erroneous claims.

## The Tax Fraud Hotline Has Not Been an Effective Source for Criminal Tax Investigations

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### Recommendations

The CI function's Director, Refund Crimes, should:

6. Develop national procedures that establish specific criteria for and guide the referral of appropriate QRP and RPP allegations from the hotline directly to the FDCs.

Management's Response: CI function management agreed to update the instructions and guidance for the proper handling of informant communications that potentially meet criminal criteria for QRP and RPP allegations.

Office of Audit Comment: While CI function management agreed with the recommendation relating to this finding, they did not agree with the calculated potential savings presented in Appendix IV. CI function management responded that the CI Refund Crimes Section conducted an analysis of the 28 accounts where we identified that the absence of account controls allowed refunds totaling \$93,480 to be issued after the date allegations were reported to the hotline.<sup>21</sup> The CI function analysis proved that 2 of the 28 alleged fraudulent refunds totaling \$6,030 were false. Since the results of the CI function's analysis of all accounts proved that only two refunds were false, we adjusted the Outcome Measure presented in Appendix IV to reflect the potential benefit relating to only those two accounts.

7. Revise the FDC IRM guidance to specify that FDC managers co-located with the call sites should be proactive in assessing the adequacy of the preparation and referral of Forms 3949 by call site personnel for QRP and RPP purposes and in providing feedback when necessary to improve trends in Forms.

Management's Response: CI function management agreed to revise the instructions and guidance relevant to the FDC interaction with the hotline call sites. The FDC will conduct regular reviews and report findings as needed to hotline call site management.

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<sup>21</sup> This analysis was conducted during the draft report response period.

## **The Tax Fraud Hotline Has Not Been an Effective Source for Criminal Tax Investigations**

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### **Appendix I**

#### **Detailed Objective, Scope, and Methodology**

The overall objective of this review was to determine whether the Criminal Investigation (CI) function effectively considers information submitted by informants via the Internal Revenue Service's (IRS) Tax Fraud Hotline (referred to as the "hotline") as a source for identifying tax investigations. We conducted the following steps to accomplish this objective:

- I. Determined whether the CI function provided sufficient guidance to the hotline call sites to aid in their screening and distribution of information among the IRS Compliance functions and ensured that items with criminal potential were forwarded to the CI function for consideration.
  - A. Contacted IRS personnel regarding the processing of information received via the toll-free hotline at the CI National Headquarters offices of the Director, Strategy, and the Director, Refund Crimes, in Washington, D.C.; the Wage and Investment Division call sites at the Atlanta, Austin, and Fresno locations; the 12 nationwide CI Lead Development Centers (LDC);<sup>1</sup> and the CI Fraud Detection Centers (FDC)<sup>2</sup> at the Atlanta, Austin, and Fresno locations. We made an on-site visit to the Austin LDC and call site.
  - B. Reviewed copies of the population of 1,312 Information Report Referrals (Form 3949)<sup>3</sup> prepared by the 3 call sites during 1 week (Austin and Fresno for the week of January 13-17, 2003, and Atlanta for the week of February 3-7, 2003) to determine volumes, distribution patterns, and whether the allegations met the CI function's referral criteria of at least \$50,000 per year in unreported income. In cases where a dollar amount was not estimated, we determined whether the allegations appeared to have criminal potential. A total of 225 of the 1,312 Forms 3949 were marked for forwarding to the CI function; we believe 140 of the 225 clearly met the CI referral criteria. We judgmentally selected Forms 3949 prepared during 1 week's time at each call site because the population for Forms 3949 prepared during any certain period could not be determined or retrieved. The IRS does not record or track individual Forms 3949 or maintain overall statistics regarding the preparation of Forms 3949 by the hotline call sites. A sample period greater than 1 week was not feasible because of the relatively large volume of Forms 3949 prepared. Sampling for

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<sup>1</sup> The primary function of an LDC is to identify and develop quality investigations to meet the CI function's business plan. The LDCs assist CI function field offices by conducting research and analysis on alleged noncompliance.

<sup>2</sup> The FDCs use manual and computerized techniques to detect potentially fraudulent refund returns, prevent the issuance of those refunds, and refer cases to the CI function's field offices for investigation.

<sup>3</sup> Form 3949 is used to record information provided by an individual wishing to report an alleged tax law violation via telephone calls, walk-in office visits, or correspondence.

## **The Tax Fraud Hotline Has Not Been an Effective Source for Criminal Tax Investigations**

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an equal duration from each hotline call site was made to allow equal representation from each location.

- II. Determined whether the CI function applied reasonable and appropriate lead development or evaluative techniques to information referrals received from the hotline call sites.
  - A. Obtained a description from 10 of the 12 LDCs of the methods they use in screening Forms 3949 received from the call sites.
  - B. Distributed to the 12 LDCs (based on the geographical location of the alleged violator) copies of the 129 Forms 3949 meeting CI referral criteria that we obtained in step I.B. above which were marked for forwarding to the CI function by the Austin and Fresno call sites. CI management provided us with their disposition decision on 121 of these 129 Forms. We did not distribute 11 Forms from 1 of the call sites because they arrived in our office subsequent to the distribution of the 129 Forms to the LDCs. We also did not receive a response from one of the LDCs for eight Forms originally distributed.
  - C. Distributed to the 10 FDCs (based on the geographical location of the alleged violator) copies of 90 of the 94 Forms 3949 obtained in step I.B. above that contained refund fraud type allegations and researched IRS tax account information, where appropriate, to identify Tax Year 2002 refunds issued, refunds prevented, or tax returns prepared for the parties reported on the Forms 3949.
- III. Determined whether the CI function's management information system was effective in providing data that allowed management to evaluate the program results attributable to hotline information referrals.
  - A. Interviewed applicable CI function personnel and analyzed the CI function's management information system to determine if data are maintained on investigations initiated from the hotline that would allow for the tracking of results.
  - B. Reviewed source documents for a statistically valid sample of 110 General Public source code Primary Investigations<sup>4</sup> approved during Fiscal Year 2002 that were assigned to CI function field agents for investigation, to estimate the number that were initiated based on an allegation received via the hotline. The sample size was based on a population of 690 case records meeting the above criteria extracted from the CI function's management information system, a 95 percent confidence level, an estimated occurrence rate of 3 percent, a precision level of +/-3 percent, and an additional 5 percent oversampling for contingency purposes. The attribute of whether

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<sup>4</sup> A Primary Investigation is the initial stage of a tax investigation, for which only certain investigative techniques are authorized.

### **The Tax Fraud Hotline Has Not Been an Effective Source for Criminal Tax Investigations**

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the case was initiated based on a hotline lead was determinable for 90 of the 110 sample cases; 3 cases were initiated from a hotline lead. Using the 95 percent confidence level, the sample occurrence rate of 3.33 percent (3/90) calculates to a range estimate of between 3 and 47 hotline cases in the population.



**The Tax Fraud Hotline Has Not Been an Effective Source  
for Criminal Tax Investigations**

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**Appendix II**

**Major Contributors to This Report**

Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)

John R. Wright, Director

Ronald F. Koperniak, Audit Manager

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Jeffrey K. Jones, Senior Auditor

Joseph P. Snyder, Senior Auditor

**The Tax Fraud Hotline Has Not Been an Effective Source  
for Criminal Tax Investigations**

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**Appendix III**

**Report Distribution List**

Commissioner C  
Deputy Commissioner for Services and Enforcement SE  
Commissioner, Wage and Investment Division SE:W  
Director, Customer Account Services, Wage and Investment Division SE:W:CAS  
Director, Refund Crimes, Criminal Investigation SE:CI:RC  
Director, Strategy, Criminal Investigation SE:CI:S  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Management Controls OS:CFO:AR:M  
Audit Liaisons:  
    GAO/TIGTA Liaison, Planning and Strategy, Criminal Investigation SE:CI:S:PS  
    GAO/TIGTA Liaison, Wage and Investment Division SE:W:S:PA

## **The Tax Fraud Hotline Has Not Been an Effective Source for Criminal Tax Investigations**

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### **Appendix IV**

#### **Outcome Measures**

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to the Congress.

##### Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; \$2,678 (see page 11).
- Revenue Protection – Potential; \$3,352 (see page 11).

##### Methodology Used to Measure the Reported Benefits:

We reviewed a judgmental sample of 1,312 Information Report Referrals (Form 3949) prepared by the Customer Account Services call sites in Austin and Fresno for the week of January 13-17, 2003, and in Atlanta for the week of February 3-7, 2003. We identified 94 Forms 3949 alleging 26 preparer schemes, 25 false tax withholding forms, 21 identity thefts, 21 misuses of Social Security Numbers, and 1 Reparations Credit scheme claim. These Forms 3949 were not forwarded directly to the Criminal Investigation (CI) function's Fraud Detection Centers<sup>1</sup> to prevent the issuance of questionable refunds until the appropriateness of the claim for refund could be validated. Our research of tax account information for individuals identified on these 94 Forms 3949 indicated that the absence of account controls on 28 taxpayer accounts allowed refunds totaling \$93,480 to be issued after the date the allegations were reported to the hotline. In response to this finding, the CI Refund Crimes Section conducted an analysis of the 28 accounts and proved that 2 of the 28 alleged fraudulent refunds totaling \$6,030 were false. Since the results of the CI function's analysis of all accounts, which was conducted during the draft report response period, proved that only two refunds were false, we adjusted the reported value to reflect the potential benefit relating to only those two accounts. The Cost Savings portion of the Outcome Measure (\$2,678) recognizes that the prevention of erroneous payments of the Earned Income Tax Credit and the Child Tax Credit represent not the protection of tax revenues but rather the protection of budgeted expenditures from appropriated funds. The Revenue Protection portion of the Outcome Measure (\$3,352) relates to the prevention of erroneous refunds or efforts to defraud the tax system not attributed to those 2 refundable credits. The outcome measure is limited to the actual number of transactions identified during the testing.

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<sup>1</sup> The Fraud Detection Centers operate closely with Submission Processing Sites where individual tax returns are filed. The Fraud Detection Centers use manual and computerized techniques to detect potentially fraudulent refund returns, prevent the issuance of those refunds, and refer cases to the CI function's field offices for investigation.

# The Tax Fraud Hotline Has Not Been an Effective Source for Criminal Tax Investigations

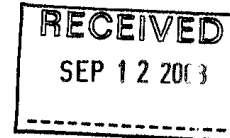
Appendix V

## Management's Response to the Draft Report



Criminal Investigation

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224  
SEP 12 2003



### MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

David B. Palmer  
Chief, Criminal Investigation CI

SUBJECT:

Response To Draft Audit Report—The Tax Fraud Hotline Has  
Not Been an Effective Source for Criminal Tax Investigations  
(Audit # 200210042) ECMS IR No. 0308-5QEK32YC

I reviewed your report about Criminal Investigation's (CI) consideration of information submitted by informants via the IRS Tax Fraud Hotline as a source for identifying tax investigations. This memorandum does not contain any information that should be protected under the Freedom of Information Act and withheld from public disclosure.

Before establishing the Atlanta, Austin, Fresno, and Philadelphia Hotline call sites, CI accepted informant calls and informant information at its Field Offices and the Criminal Investigation Branches (CIB) at the service centers nationwide. As the information items from the CIBs were forwarded to the Field Offices for evaluation, CI began to question whether the CIB resources were being used effectively to collect informant communications. A subsequent study indicated that approximately 1 percent of incoming informant communications at the CIBs met CI criminal criteria and became a criminal item for investigation. As a result of the study, we determined our resource commitment at the CIBs for accepting informant communications was not commensurate with the limited number of potential leads the CIBs produced that met CI's criminal criteria. Eventually the informant communication function for IRS was moved to the Hotline at the call sites, and the Wage and Investment (W&I) operating division became the business owner for the Hotline.

We do not believe that the criminal potential of informant communications changed since the Hotline call sites were established. The Hotline call sites provide CI with a limited number of informant communications that meet CI criminal criteria and/or would establish the basis for initiating a criminal investigation. We estimate that only 1.12 percent of Hotline calls would meet CI criminal criteria as indicated in footnote 11 on page 6 of your report.

## The Tax Fraud Hotline Has Not Been an Effective Source for Criminal Tax Investigations

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In regards to the calculated savings presented in Appendix IV, our Refund Crimes Section conducted an analysis of the accounts. The results of the analysis proved that only 2 of the 28 alleged false/fraudulent refunds were false. Therefore, we disagree with the calculated savings.

Our comments on your recommendations in this report are as follows:

### **RECOMMENDATION #1**

The CI function's Director, Strategy should revise LDC (Lead Development Center) procedures to specify that LDC managers prioritize research assignments of all informant allegations based on their relative potential, without giving routine preference to research requests solely because CI function CI field offices make them.

### **CORRECTIVE ACTION (S)**

Our LDC managers already perform this function as they review informant communications coming into the LDCs from various sources. Therefore, no specific corrective actions are required at this time. Additionally, this recommendation may be affected by the pending redesign for the LDCs.

### **IMPLEMENTATION DATE**

COMPLETED \_\_\_\_\_ PROPOSED \_\_\_\_\_  
Not applicable.

### **RESPONSIBLE OFFICIAL (S)**

Not applicable.

### **CORRECTIVE ACTION (S) MONITORING PLAN**

Not applicable.

### **RECOMMENDATION #2**

The CI function's Director, Strategy should coordinate as necessary with the applicable operating division functions to revise the IRM guidance for documenting the receipt of informant allegations to emphasize that, when the CI referral criteria are met, IRS personnel should be persistent when encouraging the informant to give his or her name and telephone number, to allow a subsequent contact in case CI function personnel want to obtain additional information. The CI function should revise the guidance to clearly illustrate the appropriate manner in which CSRs (Customer Service Representatives) should invite an informant's continued participation.

### **CORRECTIVE ACTION (S)**

We agree CI has a shared responsibility to provide instruction and guidance on potential informant communications that meet criminal criteria. We agreed that W&I, as the business owner of the Hotline call site function, will assume the lead role to review and revise Hotline call site procedures and manuals to strengthen existing operations. We will support W&I on this corrective action by providing our expertise in interviewing techniques and extracting information from witnesses to the review and revision process. In addition, we will provide required training to call site personnel regarding contacts with informants. The Small Business and Self-Employed (SB/SE)

## The Tax Fraud Hotline Has Not Been an Effective Source for Criminal Tax Investigations

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business unit also agrees to participate in this corrective action as they are the business owner for IRM 25.2 regarding informant communications. They agreed to process all suggested manual changes for IRM 25.2.

**IMPLEMENTATION DATE**

COMPLETED \_\_\_\_\_ PROPOSED February 1, 2004

**RESPONSIBLE OFFICIAL (S)**

Director, Accounts Management, W&I.

**CORRECTIVE ACTION (S) MONITORING PLAN**

Wage and Investment's internal management controls will monitor the implementation of this corrective action.

**RECOMMENDATION #3**

The CI function's Director, Strategy should revise LDC procedures to specify that LDC managers co-located with the call sites should be proactive in assessing the adequacy of the preparation of Forms 3949 by call site personnel and in providing specific feedback when necessary to improve trends in completing the Forms.

**CORRECTIVE ACTION (S)**

We agreed that W&I, as the business owner of the Hotline call sites, will assume the lead role to assure adequacy in preparing informant communications. We will support W&I on this corrective action by providing training to Hotline call site personnel on this subject. This training involves techniques to solicit high quality relevant information from informants, and to improve the content of written informant communications. This recommendation may be affected by the pending CI LDC redesign.

**IMPLEMENTATION DATE**

COMPLETED \_\_\_\_\_ PROPOSED February 1, 2004

**RESPONSIBLE OFFICIAL (S)**

Director, Accounts Management, W&I.

**CORRECTIVE ACTION (S) MONITORING PLAN**

Wage and Investment's internal management controls will monitor the implementation of this corrective action.

**RECOMMENDATION #4**

The CI function's Director, Strategy should consider whether the limited use of Internet e-mail or web page fill-in forms would be an effective supplement to the toll-free hotline in directly collecting informant communications for specific high-interest topics. For example, an e-mail address could be promoted as a way to report alleged promoters of the Reparations Credit scheme. This would also serve to consolidate such information for the CI function's consideration.

## The Tax Fraud Hotline Has Not Been an Effective Source for Criminal Tax Investigations

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### **CORRECTIVE ACTION (S)**

We believe that the toll free Hotline call sites are at present the best way to ensure a "dialogue" between the informant and IRS personnel including the opportunity to obtain clarifying information as well as the identity of the informant for follow-up conversations. Our position on this issue is supported by two separate studies conducted at the Austin and Fresno Service Centers in September 2000. We cite the following excerpts from the reports to support our position:

- Austin study, page 5 - "Consideration was given to alternative methods for informants to provide information to IRS, such as e-mail, voice mail, and written correspondence. *Phone access was determined to be the most efficient and effective method for the taxpayer to contact IRS with this type of information. Any other method creates the need for additional handling by IRS employees.* Voice mailboxes create the need for transcribing phone messages. Written correspondence produces the necessary tasks of mail sorting, routing and batching. The possibility of an e-mail address for the future was discussed, however the concern for security of information was considered too great at the present time. All of these methods require a response from IRS to acknowledge receipt of the information and the potential need for follow-up with the informant for additional information. Phone access allows the employee to ensure that the information provided is complete in the first contact. The informant line, properly staffed, eliminates the need for significant additional handling, unnecessary referrals, and follow-up with the informant."
- Fresno study, page 1 - "While the nature of informant calls is labor intensive due to the paper work and volume of information required from the caller, *overall the toll-free telephone service is the most effective method for taxpayers to contact IRS with informant information.*"
- Fresno study, page 7 - "Toll-free telephone access provides the most efficient method for taxpayers to contact IRS regarding the informant information, decreasing the handling of written correspondence."

We do not agree with the report's recommendation that the use of e-mails or a web site would be useful in collecting informant data. We again cite page 5 of the Austin study, which considered the possibility of an e-mail address for informant communications but determined the concern for security of taxpayer information was too great at that time. We believe that today's electronic landscape has not changed much, and we are still concerned about the security of taxpayer information. We also believe that page 5 of the Austin study also supports our claim that an electronic collection system, such as e-mail addresses or web sites, would require additional resources to review and analyze the informant communications received.

### **IMPLEMENTATION DATE**

COMPLETED \_\_\_\_\_ PROPOSED \_\_\_\_\_

Not applicable.

### **RESPONSIBLE OFFICIAL (S)**

Not applicable.

## The Tax Fraud Hotline Has Not Been an Effective Source for Criminal Tax Investigations

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### **CORRECTIVE ACTION (S) MONITORING PLAN**

Not applicable.

### **RECOMMENDATION #5**

The CI function's Director, Strategy should evaluate the benefits of the hotline and other public outreach methods by tracking the number and results of investigations by establishing more definitive source codes within the CI function's management information system for the various General Public sources of information.

### **CORRECTIVE ACTION (S)**

We do not perceive any tangible benefits from this recommendation.

### **IMPLEMENTATION DATE**

COMPLETED \_\_\_\_\_ PROPOSED \_\_\_\_\_  
Not applicable.

### **RESPONSIBLE OFFICIAL (S)**

Not applicable.

### **CORRECTIVE ACTION (S) MONITORING PLAN**

Not applicable.

### **RECOMMENDATION #6**

The CI function's Director, Refund Crimes should develop national procedures that establish specific criteria for and guide the referral of appropriate QRP (Questionable Refund Program) and RPP (Return Preparer Program) allegations from the hotline directly to the FDCs (Fraud Detection Centers).

### **CORRECTIVE ACTION (S)**

Refund Crimes will update its instructions and guidance for proper handling of informant communications that potentially meet criminal criteria for QRP and RPP allegations. Refund Crimes will contact the CI analyst responsible for the current format of Form 3949, Information Report Referral, and propose changes to ensure comprehensive recordation of data, and provide complete instructions and guidance. These efforts will address QRP and RPP allegations. To ensure compatibility, CI will coordinate with W&I to review and propose revisions to their Hotline call site procedures and applicable manuals to strengthen existing operations.

### **IMPLEMENTATION DATE**

COMPLETED \_\_\_\_\_ PROPOSED: February 1, 2004

### **RESPONSIBLE OFFICIAL (S)**

Director, Refund Crimes.



## The Tax Fraud Hotline Has Not Been an Effective Source for Criminal Tax Investigations

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### **CORRECTIVE ACTION (S) MONITORING PLAN**

Refund Crimes will coordinate the development of appropriate instructions and/or guidelines and publish them under a numbered, controlled correspondence to ensure publication, distribution, and implementation in time for the 2004 Filing Season. Actions involving the Forms 3949 and Hotline call site procedures will be monitored by the affected staff.

### **IDENTITY OF RECOMMENDATION #7**

The CI function's Director, Refund Crimes should revise the FDC IRM guidance to specify that FDC managers co-located with the call sites should be proactive in assessing the adequacy of the preparation and referral of Forms 3949 by call site personnel for QRP and RPP purposes and in providing feedback when necessary to improve trends in Forms.

### **CORRECTIVE ACTION (S)**

Based on prior discussions with TIGTA, Refund Crimes is revising the appropriate IRMs, and associated guidelines and instructions, relevant to the FDC interaction with Hotline call sites. These revisions will be coordinated with the W&I staff and focus on the handling of QRP and RPP related Forms 3949 in the Hotline process. The FDC will conduct regular reviews and report findings as needed to Hotline call site management.

### **IMPLEMENTATION DATE**

COMPLETED \_\_\_\_\_ PROPOSED: February 1, 2004

### **RESPONSIBLE OFFICIAL (S)**

Director, Refund Crimes.

### **CORRECTIVE ACTION (S) MONITORING PLAN**

Refund Crimes will coordinate the development of a revised IRM, and ensure publication, distribution, and implementation in the most timely manner possible. We expect that this will occur in time for the 2004 Filing Season. Where this cannot be achieved, as proposed, the associated guidelines and instructions will serve as official direction to the FDCs and Hotline call site staff until we publish and circulate the IRM. The FDCs will only be responsible for reviewing and handling QRP and RPP related Forms 3949. The FDCs will conduct regular reviews and report findings as needed to Hotline call site management to ensure compliance with the guidance and procedures outlined in the IRM.

If you have any questions about this memorandum, please call me at (202) 622-3200, or a member of your staff may contact John Imhoff, Acting Director for the Office of Strategy at (202) 622-5876.